Research Solutions, Inc. OTCPK:RSSS FQ4 2018 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates**

**Estimates Data not available.

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Call Participants

EXECUTIVES

Alan Louis Urban
CFO, Principal Accounting Officer & Secretary

Peter Victor Derycz
Founder, CEO, President & Director

ANALYSTS

George Melas-Kyriazi
MKH Management Company, LLC

Peter Rabover

Presentation

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Research Solutions' financial and operating results for its fiscal fourth quarter and full year ended June 30, 2018. Earlier today, the company issued a press release discussing these results, and a copy of the release is available for viewing and can be downloaded from the Investor Relations Section of the company's website.

Joining us today are Research Solutions' President and CEO, Peter Derycz; and the company's CFO, Alan Urban. [Operator Instructions] Finally, I would like to remind everyone that this call will be recorded and made available for replay via a link in the Investors section of the company's website. I will now turn the call over to Peter Derycz, Research Solutions' President and CEO.

Peter Victor Derycz
Founder, CEO, President & Director

Thank you, operator, and good afternoon, everyone. I'll open the call with a few brief comments about our fourth quarter and fiscal year 2018, then pass the call to Alan to speak about our results in greater detail. Finally, I will return to address other initiatives and our outlook.

We ended fiscal 2018 on a strong note, sustaining the momentum we experienced in our Platform business in the first 3 quarters and reporting steady growth in our Transactions business. Our mission to deliver workflow efficiency solutions to organizations in life sciences, technology and academia is working. But I'd like to point out a couple strategic accomplishments underlying our performance.

At the beginning of our fiscal year, we launched that Gadget Factory, which builds and delivers smart apps to our Platform users and allows us to tailor to specific industry verticals. Our Gadget framework has evolved since then to bring nearly daily innovation to our users, and it is a critical component of our customer attraction, retention and satisfaction. We have built hundreds of gadgets and gadget enhancements since launching the Gadget Factory. Our Gadget Factory is comprised of scientists and engineers working hand in hand to build cool gadgets that save our research customers time and money, therefore, accelerating their research as well as making it more efficient. I'll highlight a few of these later on this call.

We grew our Platform deployments by 62%, ending the year with 227 active customers and $2.3 million in annual recurring revenue at a gross margin of nearly 80%. Most new subscribers continue to come from the vastly underserved small- and medium-sized business market, and we remain committed to further penetrating this market in the future.

During the fourth quarter, we successfully migrated almost every customer to version 2.0 of our Article Galaxy platform and launched version 2.1 in May, and we continue to receive excellent feedback.

We began to take steps to retool our sales and marketing departments focusing on more efficient ways of acquiring customers. While this strategy is still in the early innings, it began to have impact on our fiscal 2018 results, and we are even more excited about our plans in fiscal '19 and beyond. I will have more to say about this shortly.

As a whole, a lot was accomplished in fiscal 2018. We simplified and improved our business, took our technology to a new level and significantly reorganized our approach to selling and marketing. In fiscal 2019, we're looking to bring a whole new level of happiness and return on investment to our customers and shareholders as well as providing an exciting, satisfying and flexible place to innovate and work for our team.

But before I expand upon this and other initiatives, I'd like to pass the call to Alan to walk through our fiscal Q4 results in detail. Alan?

Alan Louis Urban
CFO, Principal Accounting Officer & Secretary

Thank you, Peter, and good afternoon, everyone. Jumping right into our fiscal fourth quarter results, our Platform subscription revenue increased 66% to $529,000 in Q4, which was driven by a 62% increase in total Platform deployments to 227. This translates into 19 net new incremental deployments in Q4. The quarter ended with $2.3 million in Platform annual recurring revenue, up 14% sequentially and 64% year-over-year. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

Our Transaction revenue was up 2% to $6.6 million compared to the same year-ago quarter. This was driven by 7% growth in total customer count to 1,081. In addition, the number of corporate customers was up 5% to 851 and academic customers were up 14% to 230. Together, this drove a slight increase in transaction count to approximately 213,000. Together, these businesses delivered consolidated revenue growth of 5% to $7.2 million versus $6.8 million in the same year-ago quarter.

Moving on to gross margins. Our Platform business saw gross margins increase by 310 basis points to 80.8% compared to the same year-ago quarter. This increase was driven by proportional decreases in third-party data costs. Our target Platform gross margin remains in the high 70% to low 80% range. Gross margin in our Transactions business was up 50 basis points to 22.9%, and we continue to take actions to improve margins such as price increases and cost efficiencies. Consolidated gross margins increased 220 basis points to 27.2% compared to the same year-ago quarter, primarily due to the continued revenue mix shift to our higher-margin Platform business and a 50 basis point increase in our Transactions business.

Our total operating expenses decreased $2.1 million compared to $2.5 million in the same year-ago quarter. The decrease was primarily due to the continued optimization of sales and marketing resources and open positions.

Net loss from continuing operations totaled $136,000 or negative $0.01 per share compared to a net loss of $757,000 or negative $0.03 per share in the year-ago quarter. Adjusted EBITDA totaled negative $27,000 compared to negative $608,000 in the same year-ago quarter. While year-over-year adjusted EBITDA continues to improve, we remain opportunistic to future growth opportunities if we believe it could further accelerate Platform customer adoption and revenue growth.

Moving on to the balance sheet. Cash and equivalents at June 30, 2018, amounted to $4.0 million (sic) [$4.9 million] versus $5.8 million at June 30, 2017. There were no outstanding borrowings under our revolving line of credit, and our balance sheet continues to remain clean with cash and receivables comprising nearly all of our assets and accounts payable, accrued expenses and deferred revenue representing nearly all of our liabilities.

This completes our financial summary. I'll now turn the call back to Peter. Peter?

Peter Victor Derycz
Founder, CEO, President & Director

Thanks, Alan. I'd like to spend more time on our Platform business. As we mentioned, the strong growth in this business continues. We expect to sustain this momentum by executing upon 2 key initiatives. First, we will continue to make framework additions that provide the customer with an enriching user experience. As I mentioned, version 2.1 went live in May and we launched some powerful new features and gadgets to further enhance collaboration between workgroups and improve the efficiencies of importing and exporting useful data between the Platform and external databases and sources of information.

One example of these gadgets is our PubsHub Journals and Congresses gadget, which allows researchers to search through thousands of peer-reviewed journals and congresses, where they can learn about new research or submit their own research publication. Additionally, in October, we are launching our reference manager gadget that allows users to gather research that's important to them, organize it and even collaborate around it with colleagues in their workgroups. Drag-and-drop functionally will be added over

time so that key research in any gadget can be easily integrated into reference manager as well as other gadgets in such a way as to create an ecosystem of Gadget functionality and efficiency.

We now plan to launch of version 2.2 in early October. Although we initially expected this version to go live in early summer, we delayed the release to ensure all new capabilities would function properly and finalize the pricing structure of the self-registration aspect of the Platform. As we have mentioned previously, version 2.0 will feature new self-registration capabilities that will allow for more efficient lead generation and frictionless sign-ups, which we believe will drive more deployments in the future. This new framework will also be launching new Platform gadgets and gadget enhancements on a daily basis.

Within the Platform, users will be able to submit new gadget ideas to our Gadget Factory that can create and implement suggested gadgets to all users on the Platform. Our Gadget-oriented systems architecture allows us to be super agile in response to customer requests for new functionality and tailor the Platform to specific verticals. We believe this highly collaborative experience with our customers will deliver exceptional new gadgets that we may never have thought of, ultimately improving user experience and building the community within the Platform.

Second way to continue our Platform momentum is reconstructing our sales and marketing organizations to not only drive our growth but do it in a way that optimizes efficiency and investment returns. We are seeing these initiatives come to fruition as we recently announced the hiring of Rogier van Erkel, our new Chief Sales Officer; and Yohann Georgel, our new Chief Marketing Officer.

In addition to those announced team members, we consolidated a few activities into a new customer happiness group, led by our own industry veteran, Shane Hunt. Our customer happiness group is focused on customer retention as well as educating and upselling existing customers as new gadgets and gadget enhancements are released. These 3 groups, sales, marketing and customer happiness, will be the 3 engines driving our Platform growth in fiscal 2019 and beyond.

Rogier brings over 10 years of experience in sales management expertise, most recently leading a global sales team for Elsevier, one of the world's major providers of scientific, technical and medical information. Yohann brings over 10 years of experience in marketing, most recently serving as a Senior Director of Digital Marketing for PrimeSport, the leader in providing direct access to sporting events across the world. Both Rogier and Yohann possess deep knowledge in their respective fields and have proven their ability to lead and grow dynamic sales and marketing teams. With these 2 at the helm of our sales and marketing departments, we anticipate efficiently acquiring more customers through digital marketing, content generation and focused sales management. As we rapidly expand and focus on further penetrating the $7 billion Platform market, particularly the underserved SMB market, our new sales and marketing leaders will be crucial in becoming a key work-focused solution for R&D-driven businesses.

Our customer happiness group, led by Shane, who have been with us for 6 years, will ensure that customers onboarded by our sales and marketing activities find a happy home with our cutting-edge Platform and grow with us.

In summary, our strong fourth quarter and fiscal year 2018 results are an indication that our strategy remains on track, and we expect to continue this momentum into fiscal year 2019. We believe the new features in version 2.2 of our Platform, particularly self-registration and the ability for a user to suggest new gadgets, will continue to drive growth in our Platform business. These upgrades, along with the new leadership and restructuring of our sales and marketing teams, positions us well to further penetrate the multi-billion-dollar Platform market.
With that, I'd now like to turn the call back over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from Peter Rabover with Artko Capital.

Peter Rabover

Peter, I just wanted to follow up. At what point do you think -- I think you guys have mentioned you have about 225 Platform customers. And what will be kind of the magic number for the industry, you think, to think of this as a proof of concept that's a must-have instead of a novelty?

Peter Victor Derycz
Founder, CEO, President & Director

I think for the customers that are using it, it is already a must-have, and that sort of manifests itself in our negative churn rate at this point. So I think for that group grow, yes. But in terms of the wider market, I think we're going to just really have to prove that we can get a lot of new categories of users with our new self-registration capabilities. So these self-registration capabilities are pretty close to going live, and I think we're interested in measuring and providing key performance indicators to you and everybody else with regards to what the ramp-up is in the different categories of buyers. We're going to have sort of like free users. We're going to have paid professional users, workgroups as well as enterprise. So enterprise is going to be expanded upon. And so I think, if we see some uptake in all these different categories, I think we'll be in a good spot. I think just measuring enterprise only won't be enough. I think we'll have to really collect and disclose data on some of the other categories. But yes, we're looking -- for me in my mind, I'm looking at no reason why we shouldn't have 1,000 or 2,000 or 5,000 or 10,000 enterprise customers. It's just a matter of time in getting there by making it easy to become a customer, which we just haven't done in the past.

Peter Rabover

Okay, great. And then could you maybe comment on your, I guess, expectations as a proportion of the Platforms revenue like kind of normal run rate for the Gadget Factory? Like would that -- is that something you think will be meaningful revenue contributor or no?

Peter Victor Derycz
Founder, CEO, President & Director

Yes. Well, we -- the Gadget Factory is just a way for us to be super responsive to the market. And so when new customers or prospective customers come onboard and they say, "Oh, this isn't what I thought it was. I tried to use this module in your system. It's lacking this button", we're going to say, "Oh, great, we're lacking something. Tell us what it is, suggest a gadget or a gadget enhancement." And our Gadget Factory was just designed there to be responsive to make products evolve very, very quickly so that customers that may not find exactly what they want can quickly get satisfaction. And we think that if a customer's taking the time to explain to us what they find that's missing or what they would like to see in the Platform and we take the time to respond to that, that we will be not only responding to that one prospect or that one customer, but we'll be responding to the market at large because they're probably a lot more people like that.

Peter Rabover

Okay. Would you be open to other developers, I guess, putting on gadgets or apps on your Platform, where you could -- kind of revenue generating for them that you'd be open to?

Peter Victor Derycz
Founder, CEO, President & Director

Yes. So we have sort of a very broad 3 -- let's say, a 3-stage strategy, I would call it, that we don't really talk about a lot. But initially, when we build out the Platform, it was built on our ideas and that was based

on feedback from our existing customers. So there's a lot of internally generated idea, which I would call Phase 1 of idea generation around here. With the version 2.2 launch of the Platform we're entering, what I call, Phase 2, which is, hey, the market can suggest some ideas. This is great. We can build a community of customers and prospects that can help make our Platform a more useful tool. And then I do see in the future, which I don't have a date for you, but I do see a future that, just like what you're mentioning, is why not after Phase 2 that's well on its way, why not put an SDK out, a software development kit out to help other people just build gadgets that they think are cool on their own time and just submit them for approval into our Gadget framework sort of like what some of these app marketplaces do. But I do see that. I do see it at a Phase 3. Right now we're barely entering Phase 2, so we're still in our infancy here with gadget development. But that's sort of the way I see it long term.

Operator

[Operator Instructions] Our next question comes from George Melas with MKH Management.

George Melas-Kyriazi
MKH Management Company, LLC

I have a question on the enterprise sales. When you are making that sales and approaching potential prospects, whether they are SMB or enterprise and that's probably quite different than, hopefully, part of the answer, what are you replacing in terms of Platform or application? In a way, kind of what is the hurdle to making a sale at the enterprise level?

Peter Victor Derycz
Founder, CEO, President & Director

Yes. I think that's a good question. I would say that we are running into a lot of homegrown solutions. So our Platforms are unique in what it does, and it's becoming more and more unique as the gadgets develop and all the feature functionality start becoming visible. So I think it's really a matter of people, they're building themselves. So we have a lot of situations where we have small companies that are growing, and they have some staff doing some pieces of it. And they bring some custom code and the other pieces of it, but then those types of setups tend to break down as they try to scale up. And so I think we see a lot of replacements of, let's say, just homegrown and staff-driven type of processes. There are some competitors in the Transactions part of our business where we're selling articles. So in that case, yes, we compete in an open marketplace where you -- where anybody can buy any article they want from any publisher, and in that arena, we also compete against piracy as well. But the good thing on the enterprise side is that a lot of our -- most of our customers don't think too highly of piracy and like to do things properly. So they want a platform that can help them deliver efficiency as well as compliance. And so yes, a bit of piracy, a bit of do it yourself and a few competitors here and there of different categories that do pieces [of those here. Pretty cool feature, I guess]. Yes.

George Melas-Kyriazi
MKH Management Company, LLC

Okay. And Peter, is that why sort of the SMB field is not quite greenfield but almost greenfield because they haven't really built sort of elaborate homegrown platforms that maybe larger corporations have, so it will take some time to maybe display these homegrown platforms?

Peter Victor Derycz
Founder, CEO, President & Director

Yes. I think, in that sense, it's all about marketing. Right now -- historically, we would -- we do have a lot of large customers, a lot of large pharma, a lot of large biotech, aerospace engineering. There are a lot of big names that are customers of ours that use our Platform. So it is a, what I would call, a super industrial-strength Platform from a security perspective, from an authentication perspective and from the features and functionality the Platform provides. So what we're doing is we're democratizing, in a way, the tools that a lot of the big customers have in bringing down to these SMB, the small- and medium-sized businesses. And there are just so many of them and that are so -- in so many different places that we think that the way we're going to get them as customers is not by going around knocking on doors. All the

big companies, we know who the big companies are, we know which doors to knock on, but there's only 20 top 20 pharma. But when you talk about hundreds of thousands of small and medium-sized research-based organizations, it's really about marketing. How can they find out about what we do? And so that's why we've set up these self-registration capabilities of the Platform. So anybody that runs into us for whatever reason can sign up and get an account right away. And then we've also, like I mentioned during the call, reorganized our sales and marketing organization so that we become a lot more marketing driven and find that we're not knocking on doors but the people are signing up. And then from the people that sign up, we can find new enterprise customers in there.

George Melas-Kyriazi
MKH Management Company, LLC

Great. And then maybe just another quick question on sort of your group collaboration. Can that be done across companies, so it would be intercompany collaboration, whether it's between the companies or a company and academic institution? Or is it really sort of within the confines of one enterprise?

Peter Victor Derycz
Founder, CEO, President & Director

Yes. We find our strength to be in the areas of authentication, corporate security, data security and so on. And we think strength of application is that we can actually build walls between organizations so that the scientists and researchers at one organization cannot see and collaborate with, let's say, scientists and researchers at a competing corporation. So we do feel that our strength is in building research efficiency silos, one for each research-based organization. Now if they want to invite each other to come in to their account and things like that, there are mechanisms for doing that. But by its very nature, the Platform is designed to keep research confidentiality in mind, keep authentication in mind and keep security in mind.

Operator

At this time, this concludes our question-and-answer session. Before we conclude today's call, I would like to provide Research Solutions' safe harbor statements that include important cautions regarding forward-looking statements made during today's call as well as statements regarding the company's uses of non-GAAP financial information.

Statements made by management during today's call contain forward-looking statements that include information relating to future events and future financial and operating performance. Examples of such forward-looking statements in this presentation include, but are not limited to, statements regarding the expected continued improvement and market acceptance of the company's products and services and the expected continued growth in Transaction and Platform deployments and revenue, that the company will be successful in executing its sales and marketing strategy as the company will maintain and continue to develop its proprietary software and as the company faces few barriers in terms of achieving greater global expansion and revenue growth. Such forward-looking statements should not be interpreted as guarantee of future performance or results and will not -- be not necessarily accurate indications of the times at or by which the performance or those results will be achieved. The forward-looking statements were based on information available at this time. They are made in our management's good faith belief and at that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed and/or suggested by the forward-looking statements.

Important factors that could cause differences include, but are not limited to, changes in economic conditions, general competitive factors, acceptance of company's products in the market, the company's success in obtaining new customers and new platform deployments, the company's success in technology and product development, the company's ability to execute its business model and strategic plans, and all the risks and related information described from time to time in the company's filings with the SEC, that is the Securities and Exchange Commission, including the financial statements and related information contained in the company's annual report on Form 10-K and interim quarterly report on Form 10-Q. The company undertakes no obligation to publicly update or revise any forward-looking statements whether

because of new information, future events or otherwise. The company also assumes no obligation to update the cautionary information provided in the presentations.

Today's presentation also included financial measures as defined as non-GAAP financial measures by the SEC. The presentation of this financial information is not intended to be considered in isolation or as substitute for the financial information prepared or presented in accordance with the generally accepted accounting principles accepted in the U.S., otherwise referred to as GAAP. Please refer to more detailed discussion about the company's use of non-GAAP measures and their reconciliation to the nearest GAAP measures in today's earnings press release.

Finally, I would like to remind everyone that the recording of today's call will be available for replay after 8:00 p.m. Eastern today and through October 4, 2018. Please refer to today's press release for dial-in instructions.
Thank you for joining us for the presentation. You may now disconnect.